

Message Text

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PAGE 01 ABU DH 01604 051309Z
ACTION NEA-11

INFO OCT-01 EUR-12 ISO-00 NEAE-00 CIAE-00 DODE-00
NSAE-00 NSCE-00 SSO-00 ICAE-00 INRE-00 SOE-02
AID-05 CEA-01 COME-00 EB-08 DOE-15 H-01 INR-10
INT-05 L-03 OMB-01 PM-05 OES-07 SP-02 SS-15
STR-07 TRSE-00 ACDA-12 /123 W
-----075237 051312Z /43

O R 051234Z JUN 78
FM AMEMBASSY ABU DHABI
TO SECSTATE WASHDC IMMEDIATE 7942
INFO AMEMBASSY DOHA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY MANAMA
AMEMBASSY MUSCAT
AMEMBASSY TEHRAN

C O N F I D E N T I A L ABU DHABII 1604

E.O. 11652: GDS
TAGS: ENRG EINV IR TC
SUBJECT: SHAIKH SULTAN THREATENS TO NATIONALIZE CRESCENT PETROLEUM

REFS: (A) ABU DHABI 1490, (B) ABU DHABI 1495, (C) STATE 140977

BEGIN SUMMARY: CRESCENT MANAGING DIRECTOR HAS BEEN TOLD ORALLY
BY SHARJAH RULER SHAIKH SULTAN THAT HE HAS NO CHOICE BUT TO NATIONALI
ZE
CONCESSION IF COMPANY REFUSES ACCEPT HIS FINAL OFFER OF NEW TAX
ROYALTY OF 77/14.5 PERCENT RETROACTIVE TO JUNE 1977. SHAREHOLDERS
MEETING TO DECIDE HOW TO RESPOND. END SUMMARY

1. CRESCENT MANAGING DIRECTOR HAMID JAAFAR CALLED ON ME
JUNE 5 TO REPORT ON DEVELOPMENTS SINCE HE HAD DELIVERED MAY
15 LETTER FROM CRESCENT PARTNERS TO RULER OF SHARJAH EVENING
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OF MAY 25 (REF B). EFFORTS TO BRIDGE GAP HAD NOT BEEN SUCCESSFUL.
PARTNERS HAD SENT BACK WORD THROUGH HIM THAT THEY WERE UNWILLING
TO ACCEPT SHAIKH SULTAN'S REVISED PROPOSAL TO HAVE NEW 77/14.5
PERCENT TAX AND ROYALTY APPLIED AS OF JUNE 1977 (WHEN DISCUSSIONS
ON HIGHER TAX AND ROYALTY BEGAN) RATHER THAN JULY 1, 1976. JAAFAR
HAD CONVEYED THIS MESSAGE TO SHAIKH SULTAN ON JUNE 3. JAAFAR
HAD ON OWN INITIATIVE ALSO AT TIME TRIED EXPLORE RULER'S THOUGHTS

ABOUT SPEEDING UP DEPRECIATION AS ONE METHOD OF BRIDGING GAP. DEPRECIATION SCHEDULE FOR FIELD IS 10 YEARS FOR TANGIBLE ITEMS AND 20 YEARS FOR INTANGIBLE ITEMS. SHAIKH SULTAN'S REACTION TO THIS IDEA WAS THAT IT WAS A NON-STARTER BECAUSE HE DID NOT BELIEVE THE IRANIANS WOULD ACCEPT IT.

2. JAAFAR REPORTED THAT AT THIS POINT, SHAIKH SULTAN SAID THAT IF PARTNERS COULD NOT ACCEPT HIS LAST PROPOSAL, THEN HE WOULD HAVE NO CHOICE BUT TO NATIONALIZE COMPANY. WHEN JAAFAR ASKED RULER IF HE SHOULD CONVEY THIS MESSAGE TO THE PARTNERS OFFICIALLY, RULER THOUGHT ABOUT IT FOR A MOMENT AND THEN SAID YES. JAAFAR SAID HE HAD CONVEYED THIS MESSAGE TO BUTTES PRESIDENT BORETA JUNE 4 WHO WAS URGENTLY TRYING TO CONVENE ANOTHER MEETING OF CRESCENT SHAREHOLDERS EARLY THIS WEEK. JAAFAR EXPECTED THAT BORETA AND NORTH CUT ELY WOULD JOINTLY BE APPROACHING DEPARTMENT.

3. JAAFAR SAID HE HAD POINTED OUT TO SHAIKH SULTAN THAT IN EVENT CRESCENT NATIONALIZED, THERE WOULD HAVE TO BE COMPENSATION PAID AND THAT NET BOOK VALUE OF COMPANY'S ASSETS (BECAUSE OF SLOW DEPRECIATION) CURRENTLY STOOD AT OVER \$50 MILLION. SHAIKH SULTAN HAD REPLIED THAT THIS AMOUNT WOULD HAVE TO BE "SET AGAINST PAST DUE TAXES." JAAFAR ASSUMED THIS MEANT APPLYING A HIGHER TAX AND ROYALTY PAYMENT RETROACTIVELY.

4. JAAFAR ALSO SAID THAT SHAIKH SULTAN HAD TOLD HIM THAT HE HAD CONFIDENTIAL

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NOT YET GIVEN A COPY OF THE MAY 15 LETTER FROM CRESCENT HOLDERS TO THE IRANIANS. JAAFAR WOULD NOT WANT TO IMPLY THAT WHEN HE DOES, RULER WILL HAVE TO TELL IRANIANS WHAT HE INTENDS TO DO ABOUT IT. HE ALSO SEES IT AS A LAST DITCH ATTEMPT BY SHAIKH SULTAN TO GIVE A CHANCE TO CRESCENT PARTNERS TO RECONSIDER HIS LAST AND PRESUMABLY FINAL OFFER. JAAFAR FELT THAT BASED ON HIS CONVERSATION WITH BORETA, IT WAS UNLIKELY THAT COMPANIES WOULD BUDGE.

5. IN LIGHT OF THESE DEVELOPMENTS, BELIEVE I SHOULD SEE SHAIKH SULTAN AGAIN. I AM REQUESTING APPOINTMENT ON WEDNESDAY JUNE 7 OR AS SOON AS POSSIBLE THEREAFTER (SULTAN IS SCHEDULED TO BEGIN TRAVELLING ABROAD ON JUNE 15). I WOULD PROPOSE TO TELL HIM THAT IF HE CARRIES OUT HIS THREAT TO NATIONALIZE CRESCENT, THIS WOULD IMMEDIATELY BECOME A GOVERNMENT-TO-GOVERNMENT MATTER AND THAT USG WOULD SEEK PROMPT, ADEQUATE AND EFFECTIVE COMPENSATION ON BEHALF OF CRESCENT. I WOULD ALSO PROPOSE TO SAY THAT ANY ATTEMPT TO DEDUCT "PAST DUE TAXES" THROUGH RETROACTIVE APPLICATION OF HIGHER TAX AND ROYALTY PAYMENTS NOT ACCEPTED BY COMPANY WOULD BE VIEWED BY USG AS INADEQUATE COMPENSATION.

6. WOULD APPRECIATE ANY FURTHER THOUGHTS BY DEPARTMENT OR
IF ADDITIONAL POINTS SHOULD BE MADE BY NIACT IMMEDIATE BEFORE
0100GMT JUNE 7. FOR EXAMPLE, ARE THERE ASPECTS OF LIBYAN OR
KUWAITI OIL COMPANY NATIONALIZATION DISPUTES THAT COULD BE CITED
TO RULER, INCLUDING POSSIBLE LEGAL SEIZURES BY COMPANIES OF OIL
SHIPMENTS FROM DISPUTED CONCESSIONS? THUS FAR, ALL DISCUSSIONS
HAVE BEEN ORAL AND WE HAVE NOT LEFT ANY AIDE MEMOIRE. HOWEVER,
AM PERFECTLY PREPARED TO DO SO IF DEPARTMENT BELIEVES THIS WOULD
BE DESIRABLE AT THIS POINT. ALSO, BELIEVE I SHOULD BE AUTHORIZED TO
TALK TO IRANIAN AMBASSADOR IN ABU DHABI. WHILE I DO NOT EXPECT
HIM TO DO ANYTHING, AT LEAST IT MIGHT PROMPT HIM TO SEND A REPORT
BACK TO TEHRAN AND MAKE HIS OWN GOVERNMENT AWARE THAT WE TAKE
THIS MATTER VERY SERIOUSLY AND THAT WE THINK THE IRANIANS COULD DO A
LOT TO HELP REACH AN AMICABLE SETTLEMENT.
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DICKMAN

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